

FAIRWAY

C A P I T A L



Prime Central London
Residential

MARKET COMMENTARY

Q4-24

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THE GLOBAL ECONOMY: 2024 was a defining year for the global economy as over 70 nations headed to the polls. For many countries, new heads of state bring a new policy blueprint, shaping financial markets, trade, and investor confidence over the next few years. With political turbulence comes a degree of economic uncertainty, but global growth (GDP) remained resilient last year, growing 3.1%, supported by easing inflation and strong performance from emerging markets (*OECD Economic Outlook, Dec-24*). Trump's return to the White House will take centre stage across 2025 and his "America First" agenda will no doubt have wider implications for global trade and market stability. While cryptos have risen 40% since Trump's re-election, European stocks most exposed to U.S. trade policy have suffered. Unrest in the Middle East continued to weigh on trade (down 75%) through the Suez Canal and Red Sea in 2024, which accounts for 30% of global container traffic (*Reuters, Jan-25*). While the recent ceasefire provides hope for a path to full scale de-escalation, it remains fragile. China claimed their economy grew by 5% in 2024, but most economists point to a flagging economy, still dealing with the spill over effects of a real estate crisis, which has left government investment weak and consumer demand low.

THE UK ECONOMY: started 2024 strong, rebounding from the brief recession across Q3 and Q4 2023. Growth then slowed in the second half of the year, flatlining in the first 3 months under the new Labour government (Q3) amid policy uncertainty, and again in Q4 as the tax heavy Budget cast a damp tone, leading to cautious sentiment and business confidence. However, growth is expected to accelerate in 2025, driven by the substantial increase in government spending announced in the budget and a pickup in consumer spending as incomes rise, interest rates decline, and budget measures take effect.

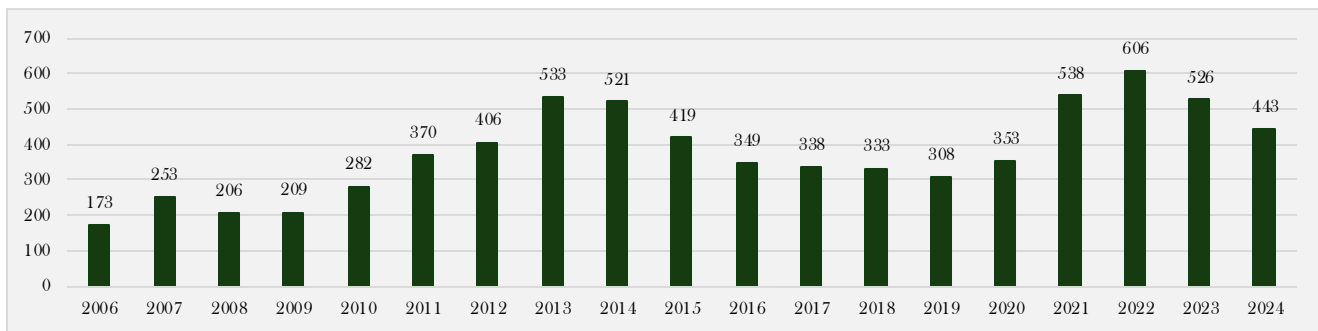
INFLATION: While UK CPI inflation dipped below target to 1.7% in September last year after peaking at a staggering 11.1% in October 2022, it then climbed back to 2.5% by year end. While the Budget's commitment to increased capital spending is designed to "kickstart economic growth" in the near term, the expansionary approach could risk fuelling inflation further, adding pressure on the Bank of England (BoE) to keep interest rates higher for longer. Like the UK, inflation in the U.S. has rebounded upwards, from its lowest level of 2.4% in Sep-24 to 2.9% currently (*Trading Economics, Jan-25*) and many investors may feel Trump's plans for tariffs (10% on China and 25% on Mexico and Canada), mass migrant deportations, and tax cuts could drive inflation further (*BBC News, Jan-25*).

INTEREST RATES: The BoE cut rates 25bps to 4.75% in November, marking a 50bps reduction since peak rates were first reduced in Jul-24. Most central banks overseeing the 10 most traded currencies are cutting rates except Norway and Australia who have remained unchanged and Japan who raised rates from 0.25% to 0.50% in January, the highest since 2008, in response to rising inflation and wages (*Reuters, Jan-25*). While the ECB took a more dovish stance with rate cuts in 2024, the Fed and BoE remained more conservative, keeping rates higher to manage stubborn core inflation risks. Although the White House will want to see more sooner, markets are now pricing just two rate cuts for the Fed across 2025, totalling 50 bps, and with the first not likely until June. In the UK, Morgan Stanley and Bank of America are predicting the BoE to bottom out rates at 3.5% by the end of 2025 (*Morningstar, Jan-25*).

CURRENCY: FX markets across 2024 were heavily influenced by shifting political landscapes and differing monetary policies across the globe. GBP/USD was resilient across 2024, although experienced strong gains between April to September, rising from a low of 1.23 to a high of 1.34. However, GBP/USD fell 5% in the final quarter of the year amid notable USD strength, pulling GBP/USD from 1.34 to the 1.25 level where it trades at present. While the pound booked losses against the US dollar in 2024, GBP's performance against other major peers was impressive, rising solidly against the EUR, CHF, CAD, AUD, and JPY (*Forex.com, Jan-25*). Entering 2025, the USD has shown continued strength, reaching a two-year high, driven by expectations that the Fed may reduce interest rates at a slower pace than anticipated and a stronger U.S. economy under the Trump administration. Analysts have set a target of 1.30 for GBP/USD by the end of 2025 (*DailyForex, Jan-25*), but the outlook remains subject to evolving geopolitical developments and comparative central bank decision making. Any continued dollar strength provides US denominated buyers with comparative purchasing power in London, making PCL property a more attractive proposition.

TRANSACTIONS: There were 443 £5m+ sales in 2024, which is 16% below 2023 and 27% down on the record levels seen in 2022. Compared to the previous three years, sales volumes slowed last year, as buyers remained hesitant and in-decisive during the run up to the election and the autumn budget, yet PCL has remained resilient. Driven by a core underlying demand for best-in-class product, transactions still remain higher (44%) than the 308 recorded in 2019, pre-pandemic. In the final quarter of 2024, sales volumes rallied with 128 sales, which is a 25% increase in sales volumes on Q3 2024 (102 sales) and an 8% increase on Q4 2023 (118 sales). The £5-15m segment remains the most liquid, accounting for 83% of sales last year, whereas above £30m, there were 17 sales. With the budget behind us, the uncertainty surrounding policy direction and labour's tax regime has been lifted, paving the way for a return to buyer decisiveness among the discretionary top end (*Savills data, Jan-25*).

Figure. 1: Total annual sales > £5 million in London from 2006 - 2024



NEW POLITICAL LANDSCAPE: The budget, although punitive, didn't throw any major curve balls and most of Labour's tax reforms had been anticipated. There were no changes to wealth taxes, capital gains tax, corporation tax, or council tax. SDLT did increase by 2% for 2nd home buyers, but the UK remains competitive when compared globally against the likes of Singapore & Hong Kong, where purchase tax is at 60% and 35% respectively and in the U.S. where holding and selling taxes are high. The move to abolish the non-dom tax regime has provided some with a reason to reconsider their tax position, but Rachel Reeves has since back-pedalled and looks set to soften the reforms. Easier access to the 'temporary repatriation facility' is envisaged, which provides non-residents with a more generous transition window to bring overseas income into the UK (*FT, Jan-25*). However, while some reports have suggested 2024 did see an exodus of the UK's millionaires in search of more favourable tax environments, the capital remains a global hub of opportunity for High Net Worths Individuals. Wealthy millionaires are a mobile demographic and there will always be a proportion seeking a flight to more attractive tax jurisdictions. The fundamentals of London remain an attractive proposition for HNW's.

CONFIDENCE IN THE CAPITAL: London has solidified its status as the capital of the world for the 10th consecutive year, according to Ipsos' "*World's best cities power ranking 2025*". Navigating the complexities of a post-Brexit era, geopolitical uncertainties and economic challenges, London's resilient spirit and unmatched global appeal have reigned supreme. Ranked across 28 sub-categories, London secured top spot in lovability, airport connectivity and nightlife. The Capital also ranks #2 in Prosperity (behind New York), maintaining its position as a top choice for international businesses and investors. In 2022, Blackstone announced their enduring commitment to London through plans to occupy a newly developed European HQ on Berkeley Square and last year saw a further surge in U.S. Investment into London Real Estate, with \$3.66bn pouring in across Q1 2024 alone. American hotelier MCR purchased the BT Tower for US\$335m, Starwood Capital picked up 10 central London hotels for US\$1bn, while hedge fund Elliott acquired restaurants, bars and apartments from the Langham Estate for US\$366m (*Ipsos, World's Best Cities, Dec-24*). But it's not just the North Americans backing London. In January this year, Norway's sovereign wealth fund purchased a 25% stake in a new joint venture worth c.£1.2bn from the Grosvenor Estate. The deal, which is the Mayfair Estates largest sale to outside investors, comprises of 175 buildings around Mount Street and Grosvenor Street, with Grosvenor retaining the Freehold ownerships (*FT, Jan-25*).

DEMAND: As evidenced by the lower transaction's numbers last year, demand did fall back driven by uncertainty around the political landscape and policy direction, which provided reason for the discretionary buyers and investors at the top end of the market to sit on their hands. However, the market continued to see a unique dislocation, whereby discretionary buyers were still competing over the very limited supply of best-in-class stock in A1 locations, but anything compromised or requiring work saw price discounts or prolonged sale periods. According to Savills data on buyer and seller profiles above £5m, UK nationals have in fact been the most active market participants over the last 10 years, accounting for 58% of the market (*Savills data, Oct-24*). These stats help re-iterate the resilience of PCL as it is the domestic market who provide the core underlying demand needed to keep the market going during macro-economic downturns. However, international buyers still represent a significant portion of PCL demand, and it is anticipated that the U.S. super rich are to launch a property spree fuelled by Trump optimism and dollar strength. Knight Frank data showed that in November last year, searches from the US for UK properties were five times higher than the previous year (*The Telegraph, Jan-25*).

SUPPLY: There remains a complete lack of supply for best-in-class product in PCL. The development pipeline has contracted 70% over the last decade, meaning the delivery of new units to the golden postcodes remains constrained. According to Knight Frank, the pipeline of homes with a blended value of £3,000 per square foot and above either with planning, under construction or recently completed, has shrunk from some 3,350 units ten years ago to 1,114 currently (*Knight Frank Residential Development Update, Jun-24*). New planning restrictions across Westminster and RBKC, restricting the supply of new homes above 200 sq m, alongside high build costs and limited land availability have further constrained construction pipelines. This means buyers will continue to be forced to the second-hand market in search of such assets, where best-in-class product is scarce and commands a premium. In 2024, 392 sales (88%) of sales above £5m were in the second-hand market (*Savills data, Jan-25*).

PRICES: Average prices in PCL experienced a -0.8% quarterly drop in Q4 and a -1.9% fall across 2024 as price sensitivity kept growth subdued, driven by fiscal and political change (*Prime London House Prices Q4-24, Savills, Jan-25*). The more established prime central locations, with the highest concentrations of discretionary wealth proved most price sensitive. Prices in Knightsbridge fell -2.0%, while Belgravia saw a drop of -1.5%. Compared to the market peak in 2014, prices in PCL ended the year down -20.7%. However, this price sensitivity is not reflective in best-in-class property, which continues to trade at premiums due to its limited supply. Heading into 2025, the main agents anticipate buyer caution will continue as the impact of key budget announcements take effect. This will keep the market in its unique dislocation and represents a strong value proposition for buying discounted unmodernised stock, while turn-key continues to perform. Figure 2 below provides an overview of the main agents forecasts for the next 5 years. The Fund is not reliant on capital growth due to the value-add component.

Figure. 2: Main agents 5-year PCL Residential Forecasts

Company	2024	2025	2026	2027	2028	2029	5-year Compounded
Savills	-1.90%	-4.00%	1.00%	3.50%	5.00%	4.00%	9.59%
Knight Frank	-1.00%	2.00%	3.50%	4.50%	5.00%	5.00%	21.63%
Strutt & Parker	1.50%	2.50%	2.50%	2.50%	2.50%		12.04%
JLL	0.00%	3.50%	5.00%	5.50%	4.50%		19.81%
Chestertons	1.80%	3.50%	4.80%				10.42%
Hamptons	1.50%	5.00%	7.50%				14.57%
AVERAGE	0.32%	2.08%	4.05%	4.00%	4.25%	4.50%	20.72%

Savills 'Prime London Houses Prices Q4-24 (Jan-25), Knight Frank PCL House Price Forecasts (Nov-24), S&P PCL Price Forecast - 'Medium Case' (Nov-24), JLL Central London Residential Forecasts 2024-28 (May-24), Chestertons House Price Forecasts (RCL) - Dec-24, Hamptons - Autumn Forecast 2023 - London (Nov-23).

PRIME AGENTS:

Peter Wetherell, Founder, Wetherell Estates *“The Americans see London as the centre of international life with all business and social facilities at hand on Greenwich Mean Time. And of course, the dollar has incredible buying power. Parts of Mayfair and Belgravia are already like ‘Manhattan-on-Thames’ and Donald’s return to the White House will only accentuate this trend”.*

Alex Christian, Co-head Savills Private Office *“Our prime agency had one the strongest ends to a year in recent times... buyers were acting with renewed confidence, having assessed how the changes in the Budget would affect them. This is a testament to the enduring appeal of London, but also the lack of quality housing stock available across prime postcodes. Traditional prime London neighbourhoods continue to be most sought after by high-end buyers. Belgravia has benefited from a surge of demand from a younger demographic thanks to significant investment into the area and an evolved retail and restaurant offering.”*

3. CONSTRUCTION COSTS

There is cautious optimism for the UK construction industry looking into 2025 as expansion is anticipated, helped by a pro-construction government. However, a mix of uncertainties remain with pent-up demand, capacity and cost concerns.

The budget announced a £100 billion capital spending plan, prioritizing infrastructure and housing while driving broader construction growth. Construction output rose 1% in the three months to August and is anticipated to rise by 2.5% in 2025 and 3.8% in 2026 as the governments pro-build stimulus takes effect and interest rates ease (*G&T Tender Price Forecast, Q4-24*). However, significant challenges threaten its delivery, including planning delays, regulatory bottlenecks, skills shortages, and a constrained contractor market. While reforms aim to streamline approvals and address these issues, their impact will take time, and increased construction demand risks worsening existing backlogs.

Developers remain encumbered by the Building Safety Act’s Gateway 2 approval process, which has delayed a considerable number of high-rise projects. The exhaustive front-end design work required, along with regulator bottlenecks due to a severe lack of qualified staff, has caused additional time constraints and slowed down the mobilisation of construction teams, with many projects stuck in pre-construction phases for months.

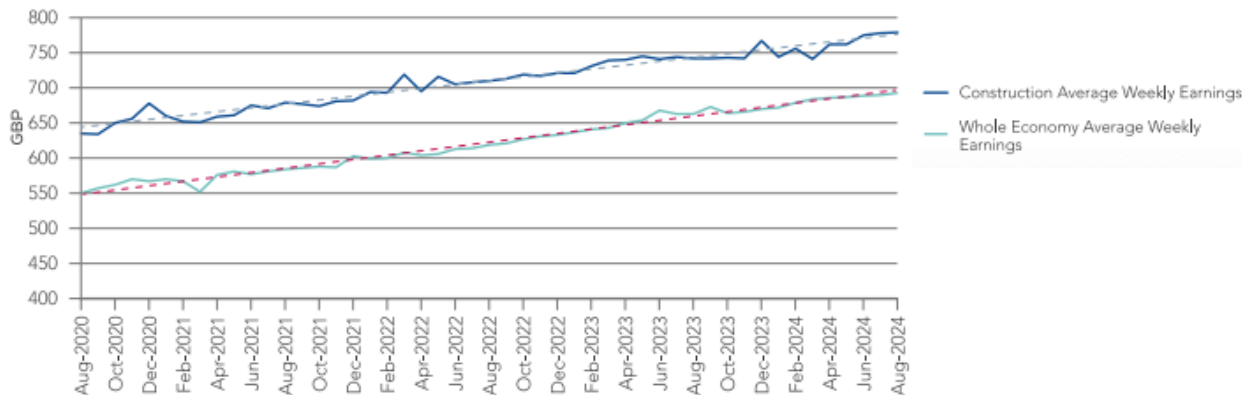
One of the main challenges to growth is a shrinking supply chain. While insolvencies may have peaked, they remain high, with recent contractor failures like ISG, which held more than £1bn worth of government contracts, placing further strain on subcontractors and reducing capacity (*BBC News, Sep-24*). The persistent shortage in skilled labour, exacerbated by demographic shifts and limited access to migrant workers, further inflates labour costs as demand outpaces supply.

According to the ONS Labour Force Survey, there has been a reduction of 380,000+ construction workers (15.9%) since Q1 2019, largely reflecting a slowdown in the labour-intensive residential sector. With the new governments plans to boost housing delivery, the shortages could intensify and cause significant issues for project delivery and cost inflation. Figure 3 shows how the average weekly earnings across the UK construction industry have increased 21% in the 4 years since Aug-2020. The Labour Force Survey also identifies that 35% of the UK construction workforce is over 50 years old, and within the next 15 years over 500,000 workers are expected to retire, leaving a significant gap in the sectors ability to fulfil the anticipated surge in activity. Labour costs are forecasted to rise by 2.7% in 2025 and 3.6% in 2026 (*Martin Arnold, Christmas Newsletter, Dec-24*).

Although the overall theme for construction material prices in 2024 has been of easing inflation, with the DBT ‘All-Work’ Index down 1.2% over the past year, costs do remain high (c.38% higher than pre-pandemic), and rising activity poses an upside price risk. Strong demand for MEP items such as generators and switchgear have continued to push prices higher while imported timber prices have continued to fall due to rising European production capacity and higher volumes of exports. Rising wage bills, new regulatory obligations, and higher costs for plant and machinery have all placed upward pressure on preliminaries (*G&T Tender Price Forecast, Q4-24*).

While the outlook for the UK construction market starts to look brighter, with a potential surge in activity driven by lower interest rates and government stimulus, significant challenges remain.

Figure 3: Average Weekly Earnings (UK Construction)



Source: Department for Business and Trade, Nov-24

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